



USAID
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KOSOVO

USAID KOSOVO PRIVATE ENTERPRISE PROGRAM (KPEP)

Promotion of FDI Turkish Investors

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Implemented by
Booz Allen Hamilton

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Promotion of FDI (Turkey)

PROMOTION OF FDI IN KOSOVO BY TARGETING TURKISH INVESTORS

Kosovo Private Enterprise Program, Project (Promotion of FDI Turkish Investors).
Contract No. EEM-I-07-00007-00, TO #2

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PURPOSE OF ASSIGNMENT

The purpose of the assignment is to take concrete steps toward promoting FDI in Kosovo. Given the relatively high risk in the environment, as well as cultural and existing business ties, Turkish investors were seen as good prospects and initially targeted. The specific task in the assignment was to develop a list of pre-screened potential investments in Kosovo that could then be marketed initially to Turkish, and then to other appropriate foreign investors. The marketing consisted of a combination of working through the professional investment community (investment banks), and direct marketing to firms in the area.

BACKGROUND

Kosovo has been slow to attract FDI after its independence in 2008. Some initial assets such as banks went quickly, and some significant initial investments were also made in construction. The next wave of production and service provision related investments by world class investors has failed to materialize.

There are a number of reasons why “traditional” investors from developed market economies may be hesitant to invest in Kosovo. Among these is lack of familiarity, as well as perceptions (and reality) of a difficult business environment and of high risk stemming from this and from political instability. At this early period following independence, early foreign investment may more readily come from other emerging markets. KPEP has decided to target Turkish investors in the initial phases of its work to increase FDI.

EXECUTIVE SUMMARY

The activity consisted of comprehensively screening the Kosovo economy for potential investments, developing a short list of potential investments, creating a set of one page “spec sheets” containing basic information about the investments, and then distributing those sheets to Turkish firms in the same fields as the identified investments.

A total of nine potential investments and two tentative investments were identified across three categories: ready investments; upcoming privatizations or concessions, and; investments requiring further development. The first and third categories were distributed directly to firms. The second category was distributed to a Turkish investment bank active in the identified areas.

In sum, four spec sheets were developed (see appendix) and distributed by the project to 14 Turkish firms active in those fields. The spec sheets were also distributed through the Turkish-Kosovo Chamber of Commerce. KPEP maintains them on-hand to distribute as additional opportunities arise.

Two additional projects are still under review by the project team. The first is a financial feasibility study for a PET recycling facility. The second is a potential investment in an electrical cable producer.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

Field activities were carried out in three main stages:

1. **Initial analysis.** A team member conducted a two and a half week assessment of investment opportunities in Kosovo, visiting companies, banks, international financial institutions and interviewing KPEP team members. A list of institutions and individuals visited is in Annex I. The purpose of this initial investigation was to develop a “long list” of investment opportunities that may be of interest to Turkish (initially) and other foreign investors.
2. **In-depth analysis.** A second team member arrived after this initial period. At this time the “long list” was screened and reduced to the investments that the team felt to be the best opportunities. In the next week and a half, this more targeted list was analyzed in more detail and data was collected to compile a series of “spec sheets” on the investment opportunities. The purpose of the spec sheets was to quickly provide enough basic information so that potentially interested investors would have enough of a basis to know if there was interest. If so, they were provided with a KPEP contact from whom they could obtain more information. At this time, it was not felt that a longer set of documentation was a good use of time or project resources. The goal was to have a set of summary information that as many investors would have the time to review as possible.

The spec sheets are given in Annex II. The list of categories and potential investments is reproduced below.

Category I: Projects immediately ready for investors	Magnesite mine development
	Dolomite mine development
	PET recycling facility (still under assessment by KPEP)
Category II: Larger investments through privatizations/concessions	Cement production (Sharr)
	Hydro electric production (Zhur)
	Ski resort (Brezovica)
	Cell phone network privatization (VALA 900)
Category III: Potential investments, requiring considerable development	Small hydro electric development
	Mining development

At the conclusion of this phase, a presentation was also given to the USAID client and KPEP management. The slides from this presentation are included with this report as a separate annex.

3. **Promotion.** The third phase took place outside of Kosovo and in Turkey. At that time, a list of potentially interested Turkish companies was identified. In hydro power, this consisted of all of the main hydro power investors in Turkey, both in small and large hydro. In magnesite, the group contacted were the magnesite exporters in Turkey, all of who exported the main product that the Kosovo mine was interested in developing, dead burned magnesite. For dolomite, as there are literally thousands of such companies in Turkey, the Kosovo-Turkey Chamber of Commerce was used as the primary means of

dissemination of the spec sheets. It was felt that their direct contact with the relevant Turkish decorative stone mining associations could provide a more targeted approach.

TASK FINDINGS

The findings are both direct and indirect, that is from direct observation and from inference from various data points.

1. Kosovo is not in a strong position to attract foreign investment *vis a vis* its neighbors, who incidentally, are also not in a very strong position. In other words, in a region that is not well positioned to attract very large amounts of FDI, Kosovo is perhaps the least attractive of locations across a number of indicators. This does not mean the FDI will not occur, but that it is likely that for a wide range of investments, investors will find other countries more attractive. It should be noted that the open access to the EU markets that Kosovo has is not unique in the region, and in fact extends to Turkey.
2. Most major investment opportunities in Kosovo are already well known by regional and global companies. This is the case in at least tourism, mining, and energy production. As a result, returns to promotion of these types of investments are likely not to be very high. The team found very few opportunities where multiple investors had not already been in to have a look.
3. There are few investments in Kosovo that are ready to accept large scale foreign investment, outside of privatizations and concessions. This is not uncommon in the region and is also not a major concern in the short term.
4. Kosovo is coming from a long period of suppressed demand for basic goods and services, and were it not for the economic crisis, it is likely that investment would have been greater than it is now. This would not necessarily been large scale FDI, but small scale, decentralized and localized investment still has potential to change the country.
5. Kosovo has some natural advantages that could be exploited rapidly with the right policy decisions. However, in some of those politics make decision making difficult (i.e. Brezovica and the mines)
6. The team found four major investment areas that it was able to market, one in hydro and three in mining. Initial feedback from Turkish investors in mining was not positive, as those same minerals are common in Turkey and the export infrastructure is more developed.
7. Outside of the larger concessions, and possibly some mining and energy investments of a smaller scale, our team would expect to see significant investment in smaller more fragmented projects. We do not expect to see other large scale FDI in other areas, except perhaps as second round investors in troubled construction projects. Much of the smaller scale investment would be expected to come from diaspora, or existing contacts between small and medium sized businesses in Kosovo and the region. Considerable opportunity exists to produce goods and services at a small scale for local consumption. It is quite difficult, however, for a centralized investment promotion activity to be able to promote investments at this scale.

CONCLUSIONS AND RECOMMENDATIONS

1. Until regulatory, electricity, transportation, and other investment climate related challenges are resolved over the medium term, Kosovo will have a difficult time competing against its neighbors. The country should focus on exploiting the large scale investments in energy, tourism and mining that could be immediately attractive. There should be no delay in moving these projects out to competitive tender as soon as possible. Once Kosovo has a more established reputation for how it treats its investors, it will be easier to attract additional investment.
2. The opportunities identified are real, but will be hard to place with investors quickly. As new opportunities to disseminate the opportunities arise, these should be taken regardless of what country they are in. Prior to any future dissemination, however, KPEP will need to confirm ongoing availability of the investment.
3. Investment identification and promotion is a dynamic process, and new opportunities should always be sought out and promoted. We would recommend refining, but continuing to use the process that was begun with this project: identify, document, and mass market. Such an approach is cost effective and in providing market information that otherwise would not be provided, covers one of the only true market failures that a public process can credibly be said to address in this case. The spec sheets in the future should not be limited to Turkish investors. Sector leads should search the internet for all companies, especially in the region, who are in the same business as the potential investee company. These should all receive a spec sheet.
4. It may make sense to develop with the investment promotion office a more compelling set of documents that would be appealing to small scale investors in the region or the diaspora. These would outline some of the potential sectors, and highlight the role that KPEP can play in doing initial due diligence on investments.

ANNEXES

- Annex I List of companies and organizations visited in phases I. and II.
- Annex II Spec sheets
- Annex III Turkish companies contacted
- Annex IV Slides from presentation at KPEP following Phase II.

Annex I: List of companies and organizations visited in phases I. and II.

- ▶ KAG Asphalt
- ▶ KRRONI Recycling
- ▶ Devolli Dairy Company
- ▶ Intercoop Operation (logistics)
- ▶ Tracing Asphalt and Stone
- ▶ Turkish-Kosovar Chamber of Commerce
- ▶ Turkish Commercial Section (Consulate)
- ▶ TAM/BAS
- ▶ MES
- ▶ Raiffeisen Bank
- ▶ Banka Ekonomike
- ▶ Meha Co
- ▶ Invest Consulting
- ▶ KPEP Sector Specialists
- ▶ World Bank (various)
- ▶ European Commission (SOGES)
- ▶ Mr.Xhevat Meha (auditor)
- ▶ Stone Quarry, Astrazub/Malisheve (Dolomite)
- ▶ Garanti Securities, Istanbul
- ▶ Phlim Klosky (SOGES)
- ▶ Istanbul Analytics

- ▶ European Bank for Reconstruction and Development
- ▶ Privatization Agency of Kosovo
- ▶ Kompania Dukagjini
- ▶ UJE RUGOVE
- ▶ Docufest Film Festival Prizren (tourism)
- ▶ Turkish Economic Bank
- ▶ Procredit
- ▶ Miniera Goleshi (Mining)
- ▶ IPAK
- ▶ ECIKS
- ▶ Kosovo Ministry of Foreign Relations
- ▶ Paolo Giovannangeli (decorative stone specialist)
- ▶ Independent Commission for Mines and Minerals
- ▶ Ministry of Economy and Finance (PPP Department and Macroeconomic Departments)
- ▶ SME Support Agency
- ▶ Energo Invest /Meridian Corp
- ▶ RA Invest, Istanbul
- ▶ Paradiso Stone
- ▶ Metalac Metals Company
- ▶ Dukagjini group

Annex II: Spec sheets

**INVESTMENT ALERT
Dolomite Mining Opportunity
Kosovo****Fall, 2009**

Booz | Allen | Hamilton

**The Opportunity**

- Mine for hard, compact, white dolomite, currently being crushed and sold for industrial and construction markets (soft dolomite also available on site)
- Seam of high quality white dolomite across a 1 hectare site, to 40 – 58 meters deep according to previous drilling study
- Owner seeks financing and joint venture to develop capacity to extract dimensional stone for local processing and/or export
- Estimated financing required, 200,000 Euro to 1.5 million Euro, depending on capacity
- Shipment to Italy through Durres port in Albania (160 km) and to Austria by road/rail, for estimated sales price for blocks of 800 Euro/m3
- Similar mine in Greece currently operating at full capacity
- Owner has all licenses and land rights for extraction; electricity, water, and road available, ready to enter JV

Investing in the Republic of Kosovo

The Republic of Kosovo became an independent country on February 17, 2008. Since then the Republic has made significant progress in improving its business environment and attracting investment. Some highlights include:

- Population of 2 million with a low cost, multilingual workforce
- Free access to EU markets, and access to Albanian port of Durres and Greek Thessaloniki
- Strong Foreign Investment Law and party to accord on arbitration
- Low taxes (10 percent corporate, 0 – 10 percent personal, 16 percent VAT)
- Euro as the official currency, minimizing macroeconomic and currency related risks

More information is available at www.eciks.org and www.invest-ks.org

Assistance in Kosovo

Through a contract with the United States Agency for International Development, Booz Allen Hamilton is facilitating investor contacts in Kosovo. We are able to provide investment information, establish contacts with investee companies and government officials, and under some circumstances co-finance feasibility, environmental impact and other studies. For more information please contact us.

Contact: Ms. Violane Konar-Leacy
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Pristina, Kosovo
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Fax: : +381 38 233 008
Email: konar-leacy_violane@bah.com

INVESTMENT ALERT
Magnesite Mining Opportunity
Kosovo

Booz | Allen | Hamilton



Fall, 2009

The Opportunity

- 12 – 15 million Euro estimated investment requirement
- The existing company owns land rights and all licenses, and seeks an investment partner
- Large developed site, compact, horizontal seam with low extraction costs for approximately 5.5 million tons reserves
- Ore quality, 46% magnesium (MgO)
- One of two proven, working mines in Kosovo
- Currently unexploited, requires investment in equipment and processing facilities (mainly furnace), though some buildings and equipment remain on-site from previous operations
- Production of raw magnesite and caustic magnesium and magnesium sulfate, total potential of 40,000 to 45,000 tons annual output of final product
- The European Bank for Reconstruction and Development may consider co-investment
- Main markets: Italy, Germany, France

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- Strong Foreign Investment Law and party to accord on arbitration
- Low taxes (10 percent corporate, 0 – 10 percent personal, 18 percent VAT)
- Euro as the official currency, minimizing macroeconomic and currency related risks

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INVESTMENT OPPORTUNITY
Mine Development
Kosovo

Fall, 2009

Booz | Allen | Hamilton



The Opportunity

- Kosovo has significant mineral resources, much of which has not yet been developed into working mines
- Reserve include: lignite, lead, zinc, silver, nickel, chrome, bauxite, and magnesium
- Extensive geological surveys have been carried out, with information available to interested parties
- Mines must be developed from raw land, and licenses are allocated on a first-come, first-served basis.
- Many areas are already under license, but these can be purchased, or they often expire when development timeframes are not met; more details are available on particular sites
- Additional information available on request or at the site of the Independent Commission for Mines and Minerals <http://www.kosovo-mining.org/>

Investing in the Republic of Kosovo

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**INVESTMENT OPPORTUNITY
Small Hydro Power Development
Kosovo**

Booz | Allen | Hamilton



Fall, 2009

The Opportunity

- A number of sites (18) for hydroelectric power generation have been identified that have not yet been developed; others may exist as well
- These sites can generate an estimated .3 to 8.3 MWH each, depending on the site and the investment
- Current pricing for peak load power in Kosovo is 65 – 84 Euro Mwh, current import price is 84 Euro Mwh
- Interested parties must submit a feasibility study, environmental impact report, and obtain water rights for each site; some co-financing for these studies may be available
- Tariff and regulatory issues had previously made the sites difficult to develop, but these have recently been resolved
- Energy regulatory environment in Kosovo is very friendly to independent power producers
- The European Bank for Reconstruction and Development may consider co-investment, covering up to 20 percent of their contribution in a grant form

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Annex III: Companies contacted and spec sheet distributed

Magnesite

Name of the company	Address	Telephone	Fax
Anatolia Minerals	Yeni Anadolu Min. Mad. San. ve Tic. Ltd. Sti. (YAMAS) 8.Cadde 77 Sokak No:8/6 Asagi Ovecler 06460 - Ankara, TURKEY US Number	Ph 90-312-472-4970	90-312-472-4980 1 (303) 297-0538
GENÇLER MADENCİLİK MÜHENDİSLİK SAN. VE TİC. LTD. ŞTİ.	G.M.K. Blv. 14 / 23 Demirtepe	+90(312) 230 16 52	+90(312) 230 16 52
Cihan Mining and Metal (Trabzon Mining and Metal)	Halk Cad. No:65 Yenisahra 34746 Kadıköy İstanbul TURKEY	+90 216 317 65 15	90 216 317 6514
Kumas Kutahya Manyezit İşletmeleri A.S.	Eskisehir Yolu 9 km, Kutahya, Turkey	+90 274 225 0050	+90 274 225 0060
Konya Selcuklu Magnezit Tugla Sanayi	DUTLUKIRI MEVKİİ P.K. 25 42090 KONYA / TÜRKİYE	90 332 3270025	90 332 3270034
Magnesit Anonim Sirketi (MAS)	26301 Eskisehir, Tutluca P.K. 66 GAR PTT, Turkey	90 222 220 2083	90 222 220 1052
Global Yatirim Holding A.S.	Rıhtım Cad. No:51 Karaköy 34425 İstanbul	+90 212 244 60 00	+90 212 244 61 61
RA Invest		+90 212 351 0445	+90 212 351 0475

Small Hydro

Name of the company	Address	Telephone	Fax 90-312-472-4980
Alarko Enerji	Tarlabası Bulvarı Şimal Sok. Alarko-Dim İş Merkezi No:16 34430 Şişhane İstanbul	0212 252 31 54	0212 252 31 19
EnerjiSA	Sabancı Center Kule 2, Kat 4, 4. Levent 34330 İstanbul	+90 212 385 88 66	90 212 385 88 55
Arsan Insaat	Piri Reis Cad. No:3 34844 Maltepe-İstanbul TURKEY	(216) 305 50 48	(216) 371 98 08
Borusan Enerji	Büyükdere Caddesi Med Marine Plaza No : 47 Floor : 1 Maslak İstanbul	90 212 340 27 60	90 212 286 39 85
AkEnerji	Miralay Şefik Bey Sokak Akhan No:15 Kat:3-4 Gümüşsuyu / Beyoğlu / İSTANBUL	(0212) 249 82 82	
Aksu Enerji	Piri Mehmet Mah. Mimar Sinan Cad. Miralay Mustafa Nuri Bey İş Hanı Kat:2 / 77 / ISPARTA - TURKEY	+90 246 218 24 43	+90 246 232 32 31
Global Yatirim Holding A.S.	Rıhtım Cad. No:51 Karaköy 34425 İstanbul	+90 212 244 60 00	+90 212 244 61 61